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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003878

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SUBJECT: FOREIGN MINISTER JAMES HUANG ON NICARAGUA AND PRC
"DOLLAR DIPLOMACY" IN AFRICA

Classified By: AIT Director Stephen M. Young, Reason 1.4 (b/d)

¶1. (C) Summary: Foreign Minister James Huang told the Director on November 15 that Taiwan is cautiously optimistic of its ability to preserve relations with Nicaragua under the Sandinistas, emphasizing that Taiwan was pleasantly surprised by both the tone and substance of the telephone conversation between President Chen and President-elect Ortega on November ¶10. Nevertheless, Huang assessed that the next three to six months in the relationship with Nicaragua will be a "critical period" for Taiwan as the PRC presses to re-establish diplomatic ties with the future Sandinista government. On Beijing's recently concluded Africa-China Forum, Huang said Taiwan's limited foreign affairs budget handicaps Taipei's ability to compete with Beijing's "dollar diplomacy" in Africa. End Summary.

President Chen's Telephone Conversation with Ortega

¶12. (C) The Director asked Foreign Minister James Huang (Chih-fang) on November 15 about Taiwan's prospects for maintaining diplomatic ties with Nicaragua once Daniel Ortega is inaugurated as President in January, 2007. Noting that Ortega had made shifting recognition to Beijing a campaign pledge, Huang responded that he was cautiously optimistic of Taiwan's ability to preserve relations. He noted that Taiwan was pleasantly surprised by both the tone and substance of the telephone conversation between President Chen and President-elect Ortega on November 10. Ortega received Chen's 25 minute call "warmly" and politely, using language that Taiwan's interpreter said is normally reserved for intimate friends. President Chen, who made concluding remarks in Spanish, offered to work with Ortega to help realize his campaign goal of eradicating poverty and boosting rural development. Huang said Ortega responded positively to Chen's remarks, expressing a desire to see the bilateral relationship "consolidated and enhanced."

13. (C) Huang suggested that the next three to six months in the relationship with Nicaragua will be a "critical period" for Taiwan as the PRC seeks to re-establish diplomatic ties with the future Sandinista government. Huang noted that working in Taiwan's favor is the goodwill that has built up between the two countries over the past 16 years. Taiwan has devoted extensive resources to help Nicaragua modernize its transportation and economic infrastructure, bailing Managua out of a financial crisis on at least one occasion. Huang demurred discussing the extent of Taiwan's financial assistance with the Director. (Note: Taiwan will send Vice Minister for Latin American Affairs Javier Hou to lead a delegation that will explore ways to cement bilateral relations. Huang said Taiwan is also working to send a political "heavyweight" to attend Ortega's inauguration in January. End Note.)

14. (C) Huang asserted Beijing is working hard to court Ortega. Taiwan's major challenge will be overcoming the Sandinista's traditionally good relations with the PRC and their "ideological" closeness. Huang was certain that Beijing was already discussing financial assistance and other economic incentives to gain Managua's recognition, but said money or past ties will not be the only factors in Ortega's calculations. Ortega appears to be less "ideological" than in the past and may want to maintain some distance from the leftist camp in order to keep a balanced relationship with the U.S. Huang suggested that, following what he characterized as the "Panama model" of 2004 when Taiwan stabilized relations with its new President, Ortega could accept economic assistance from the PRC without a reciprocal diplomatic quid pro quo.

Mexico as PRC's Broker in Central America?

15. (C) Turning to other regional concerns, Huang characterized Mexico's recent activities in Central America on behalf of the PRC as a "headache" for Taiwan. Huang asserted that China is using Mexico as a platform to expand its influence in the region. As an example, Huang cited Mexican willingness to broker meetings in Europe, Mexico City, and other locales between PRC Foreign Minister Li Zhaoxing and leaders from Taiwan's diplomatic partners in Central America. Huang added that he had no information on the benefits Mexico received from the PRC for playing the role of its intermediary in the region.

PRC "Dollar Diplomacy" at Work in Africa

16. (C) Huang raised the recently concluded China-Africa summit in Beijing as an additional example of Beijing's growing assertiveness in other parts of the developing world. Huang portrayed the summit as evidence of China's increasing clout in Africa, pointing to the write-off of USD 10 billion in African debt and offer of USD 5 billion in preferential loans and investment incentives. He added that in addition to these above-board means the PRC has also used "dollar diplomacy" to woo African leaders who maintain diplomatic ties with Taiwan. As an example, Huang claimed that Beijing had made USD 50 million in direct cash payments to the Chadian President and USD 5 million to the Foreign Minister in exchange for shifting recognition from Taiwan to the PRC.

17. (C) With a limited foreign affairs budget of approximately USD 900 million and heightened public accountability and institutional checks, Taiwan will find it difficult to compete with China's "dollar diplomacy," said Huang. Recent cuts of about USD 80 million proposed by Taiwan's Legislative Yuan, initiated by the pan-Blue opposition and targeted mainly at cutting funding for head of state trips abroad, will further reduce Taiwan's diplomatic competitiveness. Huang added he has been lobbying opposition

legislators to reverse the cuts, arguing they would affect not only President Chen's final year in office, but also severely hamper the next President's first few years of diplomacy.

Comment

18. (C) While professing cautious optimism about Taiwan's prospects for holding on to Nicaragua, Foreign Minister Huang nevertheless was also clearly aware of the threat to its diplomacy posed by the PRC. In the face of Beijing's ongoing efforts to squeeze Taiwan's international space, Taiwan would have a major diplomatic success if it is able to maintain relations with the Sandinista-led government. We will probably not know Ortega's true intentions toward Beijing until after his January inauguration. Given the suddenness and unpredictability with which its diplomatic partners such as Chad have switched recognition to Beijing and the Sandinista's previous ties with the PRC, Taipei will continue to be nervous about its ability to maintain this relationship over the long term.

YOUNG